



David M. Neff  
PHONE: (312) 324-8689  
FAX: (312) 324-9689  
EMAIL: [DNeff@perkinscoie.com](mailto:DNeff@perkinscoie.com)

131 S. Dearborn Street, Suite 1700  
Chicago, IL 60603-5559  
PHONE: 312.324.8400  
FAX: 312.324.9400  
[www.perkinscoie.com](http://www.perkinscoie.com)

August 7, 2012

**VIA EMAIL**

The Honorable Sean H. Lane  
United States Bankruptcy Court  
Southern District of New York  
One Bowling Green  
New York, NY 10004-1408  
[Shl.chambers@nysb.uscourts.gov](mailto:Shl.chambers@nysb.uscourts.gov)

**Re: In re MSR Resort Golf Course LLC, et al. (No. 11-10372)**

Dear Judge Lane:

On July 31, 2012, Your Honor issued an oral ruling on the Motion of MSR Resort Golf Course LLC, *et al.*, for Entry of an Order Estimating Damages Resulting From Rejection of the Hilton Management Agreements and an Order Authorizing Rejection of the Hilton Management Agreements. Your Honor adjudicated numerous disputes between the parties including, among other things, the appropriate rate of inflation applicable to the Hilton Resorts' projected revenues, the amount of capital expenditures that would likely be spent on the Hilton Resorts in the future, the discount rate applicable to calculate the present value of Hilton's lost profits and whether Hilton would be entitled to damages relating to foregone group services expenses. Your Honor did not actually calculate Hilton's damages, but rather requested that the parties consult with one another to calculate the appropriate amount of Hilton's damages based upon Your Honor's ruling. The parties have consulted but have not been able to agree upon a final amount to include in an order.

Other than two distinct concepts discussed below, the parties agree on the damages calculations, including the period during which Hilton's damages should be considered (*i.e.*, 2013 through 2034), and the Hilton Resorts' total revenues during that period (upon which Hilton's damages are based). The parties disagree about (1) whether Hilton's lost profits damages should be reduced for the alleged risk that the HMAs will be terminated during the final 10 years of their term, thereby triggering the liquidated damages provisions in the HMAs, and (2) how to calculate Hilton's damages relating to foregone group services expenses for the next five years (*i.e.*, 2013 through 2017). Hilton's damages calculations (which I shared with the Debtors' counsel last week) are attached hereto and are discussed further below.

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### **The Final 10-Year Term Of The HMAs And Liquidated Damages**

Your Honor held that Hilton was entitled to lost profits damages totaling 3% of gross revenues, which consists of a base fee of 2% of gross revenues, and a corporate overhead fee of 1% of gross revenues. To calculate Hilton's lost profits damages, Your Honor concluded that (1) the Hilton Resorts' revenues should be expected to grow at a 2.5% rate of inflation, *see* Transcript of July 31, 2012 Ruling ("Transcript") at 12:21-22, (2) capital expenditures to maintain the condition of the Hilton Resorts will total 6% of gross revenues in the future, *see id.* at 14:7-8, (3) Hilton's incremental cost of management is 0.25% of gross revenues, or 8.33% of a 3% base management fee, *see id.* at 17:15-21, and (4) the discount rate applied to the revenue stream for the Arizona Biltmore and La Quinta should be 11.6%, and for Grand Wailea should be 12.6% to account for the attendant risks associated with Hilton's income streams from the HMAs, *see id.* at 22:23 - 23:5, 23:9-20. In reference to the final 10-year term of HMAs, Your Honor stated that he did not find the liquidated damages provision in the HMAs relevant in this proceeding. *See id.* at 8:8-17, 16:19-24.

Based on Your Honor's aforementioned rulings, Hilton determined its lost profits damages by calculating 3% of the Hilton Resorts' gross revenues from 2013 through 2034 (the remaining term of the HMAs), deducting 0.25% for Hilton's incremental cost of management and applying a discount rate of 11.6% for Arizona Biltmore and La Quinta and a discount rate of 12.6% for Grand Wailea. These calculations result in lost profits damages totaling \$112,380,000, distributed as follows: \$28,178,000 for Arizona Biltmore, \$33,761,000 for La Quinta and \$50,441,000 for Grand Wailea.

The Debtors made the exact same calculations as Hilton for the period from 2013 through 2024. However, for the extension period of the contracts commencing in 2025, the Debtors reduced the amount of Hilton's anticipated management fees by certain hypothetical probabilities that the HMAs would be terminated in their final 10-year term, and also calculated and applied the liquidated damages Hilton would be expected to earn in each year of the final 10-year term. The Debtors' analysis results in lost profits damages totaling \$104,004,000, distributed as follows: \$25,974,000 for Arizona Biltmore, \$31,113,000 for La Quinta and \$46,916,000 for Grand Wailea. The Debtors' analysis indicates that they base their conclusions upon the report of Hilton's expert, Roger Cline, even though Your Honor never mentioned Mr. Cline's "probability of termination" analysis or indicated an intent to further reduce Hilton's lost profits damages beyond the application of the aforementioned inflation rates, capital expenditures, costs of management and discount rates. To the contrary, Your Honor's statement that Your Honor did not need to address the liquidated damages provision (Tr. at 16:19-17:17) indicates that Your Honor rejected the application of any "probability of termination" analysis and consideration of the liquidated damages provision during the final 10-year term of the HMAs.

Based on the foregoing, Hilton respectfully requests that Your Honor award Hilton the lost profits damages it has calculated at \$112,380,000 and not the \$104,004,000 the Debtors suggest.

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### **Calculation Of Foregone Group Services Expenses For A Five-Year Period**

In awarding Hilton damages for lost group services expenses, Your Honor concluded that:

(1) "[t]he language of the management agreements contemplates the payment of group services expenses," Tr. at 28:1-3; (2) "[g]roup services expenses are capped at two percent of resort revenue," *id.* at 26:17-18; (3) "Hilton's request for payments of these fees for a five-year period represents an appropriate exercise of its duty to mitigate damages," *id.* at 28:15-17; and (4) Hilton's lost group services expenses should be adjusted by application of the same discount rates applicable to Hilton's lost profits damages, *see id.* at 29:1-4. Your Honor disallowed any damages relating to "key money" Hilton alleged it would have to pay to mitigate its damages.

Based on the foregoing, Your Honor awarded Hilton damages for lost group services expenses in the amount of 2% of the Hilton Resorts' gross revenues over a five-year period (*i.e.*, 2013 through 2017), discounted by 11.6% for Arizona Biltmore and La Quinta, and 12.6% for Grand Wailea. These straight-forward mathematical calculations result in damages relating to lost group services expenses in the amount of \$33,630,000, distributed as follows: \$8,259,000 for Arizona Biltmore, \$9,855,000 for La Quinta and \$15,516,000 for Grand Wailea. These amounts do not include any "key money" payments.

The Debtors seize upon an error in Mr. Cline's initial expert report to conclude that Hilton's group services damages total only \$11,396,000. In that report, Mr. Cline referenced that Hilton's total damages relating to lost group services expenses is \$38,926,000, and that Hilton would have to pay "key money" in the amount of \$21,736,000 in the future to procure management agreements to mitigate Hilton's damages. Subtracting \$21,736,000 from \$38,926,000 equals \$17,190,000, which is the amount referred to by Your Honor in his ruling and which Your Honor acknowledged may change. *See id.* at 28:21-25. However, that \$17,190,000 was substantially less than five years of group services expenses discounted to present value. Indeed, Mr. Cline's report correctly calculated Hilton's group services loss of \$45,745,000 over five years. *See* page 50 of Roger Cline's Expert Report [W-A Tr. Ex 25], a copy of which is attached hereto. He then correctly discounted that amount plus the \$21,736,000 of key money by 8% to reach a damage calculation of \$50,915,000. *See Id.* However, Mr. Cline then erroneously discounted that amount by 8% a second time, causing his projected total group services loss to be reduced to \$38,926,000. *See Id.*

Rather than simply run calculations based upon the express terms of Your Honor's ruling (*i.e.*, 2% of gross revenues for five years discounted to present value), the Debtors try to take advantage of Mr. Cline's double-counting of the discount rate by starting with the erroneously low \$17,190,000 figure and applying a confusing formula to reduce that number to \$11,396,000. There are several errors in the Debtors' position.

First, the Debtors' calculations are totally at odds with Your Honor's damages award. There is no way one can arrive at \$11,396,000 by calculating 2% of the Hilton Resorts' gross revenues from 2013 through 2017 and discounting those amounts by 11.6% for Arizona Biltmore and La Quinta and 12.6% for Grand Wailea. In fact, the Debtors and Hilton agree on the Hilton Resorts' total anticipated revenues for 2013 through 2017 (*i.e.*, \$2,360,415,000), against which the 2% group

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services award and the applicable discount rates must be assessed. Rather than simply applying the math to reach their damage conclusions, the Debtors manipulate the numbers by using a flawed starting point of \$17,190,000. Such analysis is contrary to the underpinnings of Your Honor's ruling.

Second, the \$21,736,000 in key money referenced in Your Honor's ruling is not discounted to present value, but rather represents the total funds Mr. Cline concluded Hilton would have to pay at the end of the fifth year to procure additional management agreements to mitigate Hilton's group services damages. Discounting that amount to present value by Mr. Cline's 8% discount rate would result in key money in the amount of only \$14,793,000. If you discount the \$21,736,000 by 12.1% (a blended rate based upon Your Honor's 11.6% and 12.6% discount rates), the present value of key money is reduced even further to \$12,279,000. Thus, even under the Debtors' analysis the starting point should not be \$17,190,000, but rather \$26,647,000 (*i.e.*, \$38,926,000 minus \$12,279,000), an increase of \$9,457,000. However, even this amount is too low based upon the proper calculations consistent with Your Honor's ruling.

Finally, Hilton's expert, Mr. Cline, calculated Hilton's damages over five years correctly, but erred by "double discounting" Hilton's lost group services expenses. This explains why the \$38,926,000 was mistakenly carried over to Hilton's summary of damages, *see* W-A Tr. Ex. 25 at p. 6, and Hilton's proposed findings of fact and conclusions of law. Cline's report supports the correct damage award. Indeed, Joint Exhibit 5 shows that Hilton received almost \$4,000,000 for group services expenses from the Debtors for just the first six months of 2012. Multiplying that amount by 10 (to reflect five years of group services expenses) produces an amount of \$40 million before discounting to present value (the actual amount was \$47,208,340). Thus, that exhibit showed the extent of harm Hilton would suffer by the loss of the group services expenses.

Notwithstanding the foregoing, Hilton consistently claimed throughout this proceeding that it was entitled to damages for lost group services in the amount of 2% of gross revenues over the course of a five-year period, discounted to present value. The Court expressly accepted this as the basis for the damage award in its ruling; and, indeed, the Debtors never proposed an alternative calculation for such damages. The erroneous reference to \$38,926,000, which resulted in the mistaken calculation of total lost group services expenses in the amount of \$17,190,000, should not preclude Hilton from recovering its actual damages intended to be awarded by Your Honor. This conclusion is particularly clear inasmuch as the pending matter before the Court is the estimation of damages as opposed to an objection to claim.

Based on the foregoing, Hilton respectfully requests that Your Honor award Hilton damages relating to lost group services expenses in the amount of \$33,630,000, not the \$11,396,000 the Debtors propose.

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**Summary of Damages**

Based on the foregoing, Hilton requests that the Court enter an order estimating Hilton's damages arising out of rejection of the Hotel management Agreements as of December 31, 2012 as follows:

|                  | <b><u>Mgmt. Fees</u></b> | <b><u>Group Svcs</u></b> | <b><u>Total</u></b> |
|------------------|--------------------------|--------------------------|---------------------|
| Grand Wailea     | 50,441,000               | 15,516,000               | 65,956,000          |
| Arizona Biltmore | 28,178,000               | 8,259,000                | 36,437,000          |
| La Quinta Resort | 33,761,000               | 9,855,000                | 43,616,000          |
| TOTAL            | <u>112,380,000</u>       | <u>33,630,000</u>        | <u>146,010,000</u>  |

Very truly yours,



David M. Neff

Encls.

cc: Eric F. Leon

**MSR Hilton Damages Summary - Calculations by Waldorf=Astoria/Hilton**

|                  | Mgmt<br>Fees   | Group Svcs<br>Fees | Total          |
|------------------|----------------|--------------------|----------------|
| Grand Wailea     | 50,441         | 15,516             | 65,956         |
| Arizona Biltmore | 28,178         | 8,259              | 36,437         |
| La Quinta Resort | 33,761         | 9,855              | 43,616         |
| <b>Totals</b>    | <b>112,380</b> | <b>33,630</b>      | <b>146,010</b> |

Grand Wailea

| Assumptions            |            |
|------------------------|------------|
| Assumed Rejection Date | 12/31/2012 |
| Inflation Rate         | 2.5%       |
| Management Fee         | 3.0%       |
| Cost of Management     | 8.3%       |
| Group Services Fee     | 2.0%       |
| Discount Rate          | 12.6%      |

|                              | Projection Period (1) |         |         |         | Inflation Period (2) |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
|------------------------------|-----------------------|---------|---------|---------|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Year                         | 2012                  | 2013    | 2014    | 2015    | 2016                 | 2017    | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    | 2024    | 2025    | 2026    | 2027    | 2028    | 2029    | 2030    | 2031    | 2032    | 2033    | 2034    |
| Adjusted Total Revenues      |                       |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Morone                       | 191,231               | 199,205 | 210,287 | 217,359 |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Cline                        | 181,575               | 197,827 | 214,147 | 233,097 |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Average                      | 186,403               | 198,516 | 212,217 | 225,228 |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Inflation Rate               | ---                   | ---     | ---     | ---     | 2.5%                 | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    |
| Projected Adj. Total Revenue | 186,403               | 198,516 | 212,217 | 225,228 | 230,859              | 236,630 | 242,546 | 248,610 | 254,825 | 261,196 | 267,725 | 274,419 | 281,279 | 288,311 | 295,519 | 302,907 | 310,479 | 318,241 | 326,197 | 334,352 | 342,711 | 351,279 | 360,061 |
| Management Fee @             | 3.0%                  | 5,592   | 5,955   | 6,367   | 6,757                | 6,926   | 7,099   | 7,276   | 7,458   | 7,645   | 7,836   | 8,032   | 8,233   | 8,438   | 8,649   | 8,866   | 9,087   | 9,314   | 9,547   | 9,786   | 10,031  | 10,281  | 10,538  |
| less: Cost of Management @   | 8.3%                  | (466)   | (496)   | (531)   | (563)                | (577)   | (592)   | (606)   | (622)   | (637)   | (653)   | (669)   | (686)   | (703)   | (721)   | (739)   | (757)   | (776)   | (796)   | (815)   | (836)   | (857)   | (878)   |
| Hilton Projected Profit      |                       | 5,126   | 5,459   | 5,836   | 6,194                | 6,349   | 6,507   | 6,670   | 6,837   | 7,008   | 7,183   | 7,362   | 7,547   | 7,735   | 7,929   | 8,127   | 8,330   | 8,538   | 8,752   | 8,970   | 9,195   | 9,425   | 9,660   |
| Hilton Profit Realized       |                       | 0       | 5,459   | 5,836   | 6,194                | 6,349   | 6,507   | 6,670   | 6,837   | 7,008   | 7,183   | 7,362   | 7,547   | 7,735   | 7,929   | 8,127   | 8,330   | 8,538   | 8,752   | 8,970   | 9,195   | 9,425   | 9,660   |
| PV Years                     |                       | 0.0     | 1.0     | 2.0     | 3.0                  | 4.0     | 5.0     | 6.0     | 7.0     | 8.0     | 9.0     | 10.0    | 11.0    | 12.0    | 13.0    | 14.0    | 15.0    | 16.0    | 17.0    | 18.0    | 19.0    | 20.0    | 21.0    |
| PV @                         | 12.6%                 | 0       | 4,848   | 4,603   | 4,339                | 3,953   | 3,594   | 3,272   | 2,978   | 2,717   | 2,467   | 2,246   | 2,044   | 1,868   | 1,693   | 1,542   | 1,403   | 1,284   | 1,162   | 1,058   | 963     | 882     | 798     |
| NPV - Management Fees        | 50,441                |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Group Services Fees          |                       |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Projected Adj. Total Revenue | 186,403               | 198,516 | 212,217 | 225,228 | 230,859              | 236,630 |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Group Services Fee @         | 2.0%                  | 3,728   | 3,970   | 4,244   | 4,505                | 4,617   | 4,733   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Hilton Projected Profit      |                       | 3,728   | 3,970   | 4,244   | 4,505                | 4,617   | 4,733   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Hilton Profit Realized       |                       | 0       | 3,970   | 4,244   | 4,505                | 4,617   | 4,733   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| PV Years                     |                       | 0.0     | 1.0     | 2.0     | 3.0                  | 4.0     | 5.0     |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| PV @                         | 12.6%                 | 0       | 3,526   | 3,348   | 3,155                | 2,872   | 2,615   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| NPV - Group Services Fees    | 15,516                |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Total NPV                    | 65,956                |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |

(1) Adjusted Total Revenues in the projection period assumed to be the average between the two experts' projections to account for the 6% ruling on assumed capital investment; Cline projections only run through 2015 and use inflationary growth thereafter.  
(2) Adjusted Total Revenues are grown as the resolved inflation rate of 2.5% after the last year that both experts projected operating results (2015).

Arizona Biltmore

| Assumptions            |            |
|------------------------|------------|
| Assumed Rejection Date | 12/31/2012 |
| Inflation Rate         | 2.5%       |
| Management Fee         | 3.0%       |
| Cost of Management     | 8.3%       |
| Group Services Fee     | 2.0%       |
| Discount Rate          | 11.6%      |

| Projection Period (1)        |        |         |         |         | Inflation Period (2) |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
|------------------------------|--------|---------|---------|---------|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|
| Year                         | 2012   | 2013    | 2014    | 2015    | 2016                 | 2017    | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    | 2024    | 2025    | 2026    | 2027    | 2028    | 2029    | 2030    | 2031    | 2032    | 2033    | 2034    |       |
| Adjusted Total Revenues      |        |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Morone                       | 90,887 | 98,083  | 106,743 | 112,263 |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Cline                        | 93,947 | 106,884 | 113,836 | 121,803 |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Average                      | 92,417 | 102,484 | 110,290 | 117,033 |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Inflation Rate               | ---    | ---     | ---     | ---     | 2.5%                 | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    |       |
| Projected Adj. Total Revenue | 92,417 | 102,484 | 110,290 | 117,033 | 119,959              | 122,958 | 126,032 | 129,183 | 132,412 | 135,722 | 139,115 | 142,593 | 146,158 | 149,812 | 153,557 | 157,396 | 161,331 | 165,365 | 169,499 | 173,736 | 178,080 | 182,532 | 187,095 |       |
| Management Fee @             | 3.0%   | 2,773   | 3,075   | 3,309   | 3,511                | 3,599   | 3,689   | 3,781   | 3,875   | 3,972   | 4,072   | 4,173   | 4,278   | 4,385   | 4,494   | 4,607   | 4,722   | 4,840   | 4,961   | 5,085   | 5,212   | 5,342   | 5,476   | 5,613 |
| less: Cost of Management @   | 8.3%   | (231)   | (256)   | (276)   | (293)                | (300)   | (307)   | (315)   | (323)   | (331)   | (339)   | (348)   | (356)   | (365)   | (375)   | (384)   | (393)   | (403)   | (413)   | (424)   | (434)   | (445)   | (456)   | (468) |
| Hilton Projected Profit      |        | 2,541   | 2,818   | 3,033   | 3,218                | 3,299   | 3,381   | 3,466   | 3,553   | 3,641   | 3,732   | 3,826   | 3,921   | 4,019   | 4,120   | 4,223   | 4,328   | 4,437   | 4,548   | 4,661   | 4,778   | 4,897   | 5,020   | 5,145 |
| Hilton Profit Realized       |        | 0       | 2,818   | 3,033   | 3,218                | 3,299   | 3,381   | 3,466   | 3,553   | 3,641   | 3,732   | 3,826   | 3,921   | 4,019   | 4,120   | 4,223   | 4,328   | 4,437   | 4,548   | 4,661   | 4,778   | 4,897   | 5,020   | 5,145 |
| PV Years                     |        | 0.0     | 1.0     | 2.0     | 3.0                  | 4.0     | 5.0     | 6.0     | 7.0     | 8.0     | 9.0     | 10.0    | 11.0    | 12.0    | 13.0    | 14.0    | 15.0    | 16.0    | 17.0    | 18.0    | 19.0    | 20.0    | 21.0    | 22.0  |
| PV @                         | 11.6%  | 0       | 2,525   | 2,435   | 2,316                | 2,129   | 1,953   | 1,793   | 1,647   | 1,516   | 1,389   | 1,276   | 1,172   | 1,080   | 988     | 908     | 834     | 769     | 703     | 646     | 593     | 548     | 500     | 459   |
| NPV - Management Fees        | 28,178 |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Group Services Fees          |        |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Projected Adj. Total Revenue | 92,417 | 102,484 | 110,290 | 117,033 | 119,959              | 122,958 |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Group Services Fee @         | 2.0%   | 1,848   | 2,050   | 2,206   | 2,341                | 2,399   | 2,459   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Hilton Projected Profit      |        | 1,848   | 2,050   | 2,206   | 2,341                | 2,399   | 2,459   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Hilton Profit Realized       |        | 0       | 2,050   | 2,206   | 2,341                | 2,399   | 2,459   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| PV Years                     |        | 0.0     | 1.0     | 2.0     | 3.0                  | 4.0     | 5.0     |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| PV @                         | 11.6%  | 0       | 1,837   | 1,771   | 1,684                | 1,547   | 1,421   |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| NPV - Group Services Fees    | 8,259  |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |
| Total NPV                    | 36,437 |         |         |         |                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |       |

(1) Adjusted Total Revenues in the projection period assumed to be the average between the two experts' projections to account for the 6% ruling on assumed capital investment; Cline projections only run through 2015 and use inflationary growth thereafter.  
(2) Adjusted Total Revenues are grown as the resolved inflation rate of 2.5% after the last year that both experts projected operating results (2015).

La Quinta Resort

| Assumptions            |            |
|------------------------|------------|
| Assumed Rejection Date | 12/31/2012 |
| Inflation Rate         | 2.5%       |
| Management Fee         | 3.0%       |
| Cost of Management     | 8.3%       |
| Group Services Fee     | 2.0%       |
| Discount Rate          | 11.6%      |

|      | Projection Period (1) |      |      |      |      | Inflation Period (2) |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
|------|-----------------------|------|------|------|------|----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|--|
| Year | 2012                  | 2013 | 2014 | 2015 | 2016 | 2017                 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |  |

Adjusted Total Revenues

|                              |       |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
|------------------------------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Morone                       |       | 112,059 | 117,444 | 128,977 | 137,364 |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Cline                        |       | 109,368 | 122,476 | 134,694 | 143,845 |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Average                      |       | 110,713 | 119,960 | 131,836 | 140,604 |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Inflation Rate               |       | ---     | ---     | ---     | ---     | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    | 2.5%    |         |
| Projected Adj. Total Revenue |       | 110,713 | 119,960 | 131,836 | 140,604 | 144,120 | 147,723 | 151,416 | 155,201 | 159,081 | 163,058 | 167,135 | 171,313 | 175,596 | 179,986 | 184,485 | 189,097 | 193,825 | 198,670 | 203,637 | 208,728 | 213,946 | 219,295 | 224,777 |
| Management Fee @             | 3.0%  | 3,321   | 3,599   | 3,955   | 4,218   | 4,324   | 4,432   | 4,542   | 4,656   | 4,772   | 4,892   | 5,014   | 5,139   | 5,268   | 5,400   | 5,535   | 5,673   | 5,815   | 5,960   | 6,109   | 6,262   | 6,418   | 6,579   | 6,743   |
| less: Cost of Management @   | 8.3%  | (277)   | (300)   | (330)   | (352)   | (360)   | (369)   | (379)   | (388)   | (398)   | (408)   | (418)   | (428)   | (439)   | (450)   | (461)   | (473)   | (485)   | (497)   | (509)   | (522)   | (535)   | (548)   | (562)   |
| Hilton Projected Profit      |       | 3,045   | 3,299   | 3,625   | 3,867   | 3,963   | 4,062   | 4,164   | 4,268   | 4,375   | 4,484   | 4,596   | 4,711   | 4,829   | 4,950   | 5,073   | 5,200   | 5,330   | 5,463   | 5,600   | 5,740   | 5,884   | 6,031   | 6,181   |
| Hilton Profit Realized       |       | 0       | 3,299   | 3,625   | 3,867   | 3,963   | 4,062   | 4,164   | 4,268   | 4,375   | 4,484   | 4,596   | 4,711   | 4,829   | 4,950   | 5,073   | 5,200   | 5,330   | 5,463   | 5,600   | 5,740   | 5,884   | 6,031   | 6,181   |
| PV Years                     |       | 0.0     | 1.0     | 2.0     | 3.0     | 4.0     | 5.0     | 6.0     | 7.0     | 8.0     | 9.0     | 10.0    | 11.0    | 12.0    | 13.0    | 14.0    | 15.0    | 16.0    | 17.0    | 18.0    | 19.0    | 20.0    | 21.0    | 22.0    |
| PV @                         | 11.6% | 0       | 2,956   | 2,911   | 2,782   | 2,557   | 2,346   | 2,155   | 1,979   | 1,821   | 1,669   | 1,533   | 1,408   | 1,297   | 1,187   | 1,090   | 1,002   | 924     | 845     | 776     | 712     | 658     | 601     | 552     |

|                       |        |
|-----------------------|--------|
| NPV - Management Fees | 33,761 |
|-----------------------|--------|

Group Services Fees

|                              |       |         |         |         |         |         |         |
|------------------------------|-------|---------|---------|---------|---------|---------|---------|
| Projected Adj. Total Revenue |       | 110,713 | 119,960 | 131,836 | 140,604 | 144,120 | 147,723 |
| Group Services Fee @         | 2.0%  | 2,214   | 2,399   | 2,637   | 2,812   | 2,882   | 2,954   |
| Hilton Projected Profit      |       | 2,214   | 2,399   | 2,637   | 2,812   | 2,882   | 2,954   |
| Hilton Profit Realized       |       | 0       | 2,399   | 2,637   | 2,812   | 2,882   | 2,954   |
| PV Years                     |       | 0.0     | 1.0     | 2.0     | 3.0     | 4.0     | 5.0     |
| PV @                         | 11.6% | 0       | 2,150   | 2,117   | 2,023   | 1,858   | 1,707   |

|                           |       |
|---------------------------|-------|
| NPV - Group Services Fees | 9,855 |
|---------------------------|-------|

|           |        |
|-----------|--------|
| Total NPV | 43,616 |
|-----------|--------|

(1) Adjusted Total Revenues in the projection period assumed to be the average between the two experts' projections to account for the 6% ruling on assumed capital investment; Cline projections only run through 2015 and use inflationary growth thereafter.  
(2) Adjusted Total Revenues are grown as the resolved inflation rate of 2.5% after the last year that both experts projected operating results (2015).